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Bastiaan van Apeldoorn and Laura Horn

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CRITICAL POLITICAL ECONOMY

Bastiaan van Apeldoorn and Laura Horn

Abstract

European integration is a fundamentally open-ended and contested process. Within the ‘mosaic of European integration theories’, critical political economy perspectives highlight the imbalances and structural power asymmetries of the European project, and how they have become manifest in the multiple crises in Europe. How to account for both the origins and consequences of this crisis has become a key question for scholars and students of European integration. We argue that critical political economy (CPE) has an important and unique contribution to make here. Unlike other approaches, CPE seeks to uncover the deep connections between the (internal) dynamics of the European integration process and the dynamics of global capitalism, arguing that European integration, or disintegration for that matter, takes place in a global, structural context that shapes and conditions both form and content of the integration process. In this paper, we provide an overview of the key concepts, methodology and arguments of a critical political economy perspective on European integration. Following a discussion of the core conceptual framework, the paper then proceeds with an integrated analysis of EMU as a political project, with a particular focus on continuity and changes within the political economy of neoliberalism. The Euro crisis here serves as a contemporary reference point to illustrate the strengths and contributions of critical political economy perspectives to the overall mosaic of European integration theories.

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1. Introduction

We are currently witnessing a critical decade for the European Union (EU). With the Eurozone crisis unfolding since 2010, and the so-called refugee crisis and the shock of Brexit further destabilizing the European integration project in the middle of the decade, many came to see the EU to be in an existential crisis. How to account for both the origins and consequences of this crisis has become a key question for scholars and students of European integration. We argue that critical political economy (CPE) has an important and unique contribution to make here. While there are, as identified in Wiener et al. forthcoming, multiple crises, the economic crisis afflicting Europe and the Eurozone in particular has been longest in the making and arguably has the most far-reaching consequences. It is also a valuable lens through which we can shed light on the other crises. CPE helps us to understand the contradictions that have characterized European economic and financial integration since at least the 1992 Maastricht Treaty (Treaty on European Union), and how they have led to the near (and still potential) unravelling of the European project, especially as these same contradictions continue to beset the attempts to resolve the crisis. Unlike other approaches, CPE seeks to uncover the deep connections between the (internal) dynamics of the European integration process and the dynamics of global capitalism, arguing that European integration, or disintegration for that matter, takes place in a global, structural context that shapes and conditions both form *and* content of the integration process. Form can be understood as the institutional dimension of the integration process and of European governance, for instance how power is divided between member states and supranational institutions like the Commission, and concomitant modes of policy-making. The content of European integration pertains to the articulation and substantive outcome of policies and institutional processes. What matters for CPE is how the interlinkages between form and content of integration engender inequalities and social conflict.

Europe from the start has been an inherently *political* project of primarily *economic* integration. It has been in the area of economic integration that in the context of the global economic and financial crisis of 2008 the intended and unintended consequences of Economic and Monetary Union (EMU) almost led (and at the time of writing still could lead) to a complete collapse of the European project. Evidence is mounting that subsequent policies in response to the so-called Euro crisis have only made matters worse. This in turn has important economic as well as profound political repercussions. The loss of legitimacy of, and public trust in both national and European institutions, the decline of the political centre, and the rise of often nationalist and xenophobic populism must be seen not only against the background of the so-called “refugee crisis” of 2015-16 (which erupted long after the populist parties had entered the political limelight), but certainly also against the background of the Euro crisis and the underlying economic crisis. The latter in turn cannot be understood in isolation from the crisis that has been besetting global capitalism since (at least) 2008.

In this paper, we provide an overview of the key concepts, methodology and arguments of a critical political economy perspective on European integration. Following a discussion of the core conceptual framework, the paper then proceeds with an integrated analysis of EMU as a political project, with a particular focus on continuity and changes within the political economy of neoliberalism. The Euro crisis here serves as contemporary reference point to illustrate the strengths and contributions of critical political economy perspectives to the overall mosaic of European integration theories.

2. Why Critical Perspectives? The Social Purpose of European Integration

The starting point for critical political economy perspectives is the mutual constitution of “the economic” and “the political” in the process of European integration. The economic and the political are not perceived as two separate realms externally influencing each other, but rather as internally related, presupposing each other (Meiksins Wood 1981). Studying the interaction between the political and the economic, between power and (re)production, in an integrated and critical fashion means seeking to uncover the *social power relations* through which these processes and phenomena are connected.

Analyzing and critiquing existing structures of social inequality implies putting the existing social order into question rather than accepting it as a given, and raises issues of social justice, democracy, and legitimacy. The identification of constraints placed on agents and their demands, uncovering and questioning the workings of social structures and prevailing ideas prepares the ground for political alternatives that improve the conditions of social life. Thus, critical research essentially seeks to explore and elucidate the theme of human emancipation through raising awareness about alternative futures. This is based on the fundamental belief that “things could be different and better” (Adorno 1951 [2001]: 34). Critical scholars seek to actively promote, invigorate and convolve alternative futures, contributing to the politicization and the resilience of social struggles and transformative praxis (Wigger/Horn 2016).

The developments of the last years have thrown the obvious connection of the economic and the political in EU integration into sharp relief; it is all the more striking to which extent this dimension has been absent from theoretical debates within EU studies. According to Cafruny and Ryner (2012) we can explain this in terms of a disciplinary split that took place in the evolution of the social sciences at the end of the 19th century. Classical political economy from Adam Smith to Karl Marx departed from a unified conception of social science driven by a concern with the *interaction* between production and power, that is, an integral approach to the study of the society, the economy, and politics. The social sciences as they were institutionalized in the course of the 20th century, however, became discrete concerns in which such an integrated approach was no longer possible. Here “economics” in its neoclassical formulation came to concern itself with the “laws of the market” and the interaction between individuals and firms in the marketplace abstracted from society, from any social and political structures. In contrast, political scientists came to concern themselves with the workings of the political system (and how to make it work “better”), conceived as a sphere of formal political institutions and a civil and political society seen as external to “the market economy”.

Within the context of this disciplinary split, conventional integration theory has for long been focused rather exclusively on the question of the extent of sovereignty transfer from the national to the supra-national level and what might explain the process. There has been little attention to the substantive, and in particular to the *socio-economic* content of the integration process; to how political agents are conditioned by particular social and economic structures, and to how these structures in turn are reproduced and transformed by political processes. It is to such an integrated approach that critical political economy consciously seeks to aspire, trying to transcend the disciplinary split and offer an interdisciplinary or maybe more accurately *post-disciplinary* perspective (Jessop/Sum 2001; Cafruny/Ryner 2012).

2.1 Which Kind of Power in European Integration Theories?

In the classical definition of Harald Laswell “politics is about who gets what when and how”. A critical follow-up question would be *cui bono*, who benefits, and which subject is this “who” that is being referred to? Even if liberal intergovernmentalism (see Moravcsik/Schimmelfennig forthcoming) is right in claiming that ultimately European integration is driven by choices made by national governments (inasmuch as the focus is on grand intergovernmental bargains this is arguably a truism), the costs and benefits of integration are not only distributed unevenly among member states, but also between social groups or social classes. Just as globalization produces both winners and losers, so does the process of European integration. These social and economic consequences in turn can have important political implications, such as the current populist backlash against the EU. But these consequences may also give us significant clues (though not yet evidence) about who or what may be driving the integration process. Arguably, in what has become an increasingly politicized European integration process since the 1990s (when Maastricht entered into force), the *cui bono* question has been at the forefront of public debates on European integration and EU governance.

And yet for a long time this question of who benefits, the perspective that there may be winners and losers, has been largely absent from theoretical debates on European integration. Federalist perspectives, and neo-functionalism in particular have tended to simply assume that what was seen as the self-expanding process of European integration would increase welfare for all, would make everyone better off, at least economically (see Kelemen forthcoming and Niemann et al. forthcoming). Focusing on the role of (potentially divergent) economic interests of powerful domestic actors in the formation of Member States’ national preferences, liberal intergovernmentalism (LI) in this respect did advance the debate in mainstream European integration theory by bringing “distributional conflicts” (Moravcsik 1993: 479) back into the analysis (see Moravcsik/Schimmelfennig forthcoming). A limitation of LI, however, is that it ignores distributional conflicts between social groups or classes, between labour and capital, and therefore misses an important dimension of social power relations and political struggles within capitalist societies. Departing from a rationalist and individualist framework, LI argues that those groups who “stand to gain or lose a great deal *per capita* [from the integration process] tend to be most influential” (Moravcsik 1993: 483). Yet as the current political crisis of the EU shows, those whose incomes have stagnated, whose labour rights have been eroded, whose democratic control has been undermined and who feel left behind by the process, have for a very long time had the *least* influence on European integration outcomes. What this points to is the *power* asymmetries inherent in capitalism, asymmetries which tend to be glossed over in conventional accounts from neo-functionalism to LI to governance and social constructivist approaches (see Börzel forthcoming and Risse forthcoming). Implicitly all of these theories tend to depart from a liberal conception of society seen as a collection of “private individuals and voluntary associations” (Moravcsik 1993: 483) rather than as a society characterized by structural inequalities.

2.2 The Contribution of Historical Materialism: Ontology and Methodology

Capitalism is a key concept for critical political economy, and so is class. We cannot fully understand the nature and dynamics of the European integration process if we do not understand how it takes place in a context of a capitalist economic system, that is, a system based on the private ownership of the means of production. Production – taking the form of a social interaction with nature – necessarily forms the material basis of all human life, and therefore of the very existence and reproduction of societies, including their political organization. As Cox (1987) writes, production is the necessary material precondition for the exercise of any form of power, including state power. Those who own and control the means of production form a social class – the capitalist class – inasmuch as they have a common identity and set of interests, which they may or may not consciously articulate and promote. This class is set apart from, and partly defined in opposition to the social class who have to sell their labour power as commodity on the labour market. The alienation and exploitation that arise out of this structural asymmetry gives rise to historically specific social relations of production. There is nothing determinist about such a historical materialist approach; rather it allows for a nuanced and dialectic understanding of *structure and agency* in the examination of the social origins of political/public power within the ensemble of social relations in which actors are embedded. Agents can reproduce social structures through their practices, but they can also diverge from such structures and transform them (Jäger et al. 2016).

While not all critical political economists within European integration studies would self-identify as historical materialists, this tradition has been hugely influential in shaping CPE perspectives. If we accept historical materialism as point of departure for understanding European integration, what does this mean for methodology, and ways of analyzing political processes? It is helpful to keep in mind that the relationship, and sequence between ontology–epistemology–methodology should in itself be coherent and consistent (Hay 2002: 63). Taking as starting point the ontological primacy of the social relations of production, van Apeldoorn et al. (2003: 33) highlight two crucial methodological dimensions. First, critical political economy perspectives are firmly positioned within a post-positivist tradition rejecting the separation between research subject and object. “Knowledge” is understood as a social and historical product, rather than a transhistorical category. Instead of attempting to uncover regularities and law-like patterns in human behaviour (as in neo-positivist approaches), CPE perspectives share an epistemological position with social constructivism and other reflectivist approaches (see Risse forthcoming and Wodak forthcoming), even though the ontological point of departure is different. The social reality of European integration processes is understood as mediated through abstraction, with the researcher as part and parcel of this very reality. Rather than seeing integration as an Archimedean object, a process that can be studied under neutral, objective conditions, CPE perspectives appreciate their own interrelation with, and impact on the very processes they study (Wigger/Horn 2016). As Cox reminds us with his differentiation between problem-solving and critical theories, “theory is always for someone and some purpose” (Cox 1981: 128).

Second, abstraction allows for an iterative and dialectical engagement between the abstract and the concrete (Marx 1857 [1973]: 101). “Method of abstraction” here refers to a fundamental analytical strategy, rather than concrete research methods and techniques. The changing nature of political orders means that theoretical concepts are in constant need of adjustment (Cox 1987: 209). Theories may be the result of previous academic research and offer analogies, but they need to be evaluated in light of a changing social reality and

the specificity of the phenomenon under investigation. Within these methodological commitments, critical perspectives are explicitly pluralist with regard to methods; “critical” research on European integration does not require a *specific* method or analytical strategy, as long as there are good reasons for the chosen method.

2.3 The Contribution of (Neo-)Gramscian Approaches

Within Critical Political Economy, (Neo-)Gramscian approaches have been particularly prominent over the last decades. These approaches, as pioneered by Robert Cox and others, take historical materialism as their starting point but, inspired by the writings of the Italian communist Antonio Gramsci, add what we could call a constructivist dimension, focusing on the role of agency in shaping and reshaping social structures, including their ideational and cultural dimensions (see e.g. Cox 1981; Gill 1993). However, more than most constructivists, Gramscians emphasize that ideas are always produced by human agency in the context of specific social power relations, and as such are linked to the strategic action of social (class) actors that are always also materially situated. Material conditions, rather than being external to the socially constructed world are very much part of this. Social structures therefore are not merely ideational. Rather than talking about the role of *ideas*, whose origins often remain unexplained in constructivist accounts, CPE prefers to use the term *ideology*, expressing the fusion of ideas with (legitimate) power *serving particular interests*. Ideology depends on concrete human practice for its reproduction or transformation. This also links to the Gramscian notion of hegemony, a key concept applied in many CPE perspectives on European integration. Hegemony here refers to a form of social rule based on a combination of consent and coercion, rather than on mere coercion (see, e.g., Gramsci 1971: 169f). As such it refers to an institutionalization of a set of ideas and practices (pertaining to the ideological perspective of the dominant social group or class) constituting a structure of domination. Hegemony is never complete or stable; rather it is constantly rearticulated, reinforced, and contested by various social forces.

The social terrain on which these social struggles take place in capitalism is *primarily, but no longer exclusively so*, the nation-state. Drawing on discussions of the relationship between capitalism and the nation-state, CPE perspectives analyse the fundamental interplay between regimes of accumulation, i.e. the way production and consumption are organized and managed, and the system of governance and rules that shape, engender and constrain these processes (e.g. Bieling et al. 2016). The state is not a neutral social terrain. Neo-Weberian institutionalist accounts of the state, and by extension many of the European integration theories discussed in Wiener et al. forthcoming, are premised on the assumption of a plurality of aggregate interests that are competing on equal terms, on the basis of which an autonomous state takes rational and fair decisions. In contrast to this, in a historical materialist perspective the state is seen as a condensation of the balance of political forces. This also implies that the state is not equally accessible to all social groups. As Jessop argues, the “strategic selectivity” inherent to the capitalist state, which serves “to advance (or obstruct) particular fractional or class interests” (Jessop 2008: 127), is also a fundamental aspect of the EU and its complex ensemble of institutional mechanisms and political practices. It reproduces and reinforces structural power asymmetries, not just through institutional form, but also socio-economic content.

Within Europe it is no longer exclusively the nation states that provide the regulatory framework which allows the capitalist market economy to function – rather a key role is increasingly played by the EU and the process of European integration itself. From a (neo-)Gramscian CPE perspective, European integration and the regime of EU governance can be seen as a political, and potentially hegemonic, project – or sometimes more accurately defined as the outcome of a struggle between rival projects (van Apeldoorn 2002; State Project Europe 2012). Political projects are defined as an integrated set of “initiatives and propositions that, as pragmatic responses to concrete national and European problems, conceptually and strategically further the process of socio-economic, societal and institutional restructuring” (Bieling/Steinhilber 2001: 41). Importantly, as Bulmer and Joseph argue (2016: 737), to understand the concrete formation and formulation of these processes it is crucial to recognise “the significance of the domestic as reflected in different political strategies, settlements and calculations. Interests are more strongly grounded at the domestic level, as are mechanisms of articulation and legitimation”. This also highlights the need not to overestimate the stability, and indeed agency, of elites at the European level. Rather than merely describing such political projects, CPE seeks to explain why and how they come about, analysing their social origins.

Political projects are here seen as constructed by the agency of a dominant set of national and transnational social forces, vis-à-vis more subordinate groups that may or may not put up effective resistance. Concretely, a political project is articulated ideologically through the discursive and political practices of a multitude of actors. Along the lines of the class perspective outlined above, CPE perspectives study concrete (groups of) actors against the background of the social terrain in which they are based, and with a core awareness of the open-ended nature of their strategies and interests. These actors include the organised interests at EU level, e.g. the “social partners” BusinessEurope and the European Trade Union Confederation (ETUC). Beyond the formal institutions, CPE perspectives have also highlighted the agency of e.g. (transnational) associations and lobby groups (Horn/Wigger 2016), think tanks and private forums (Plehwe 2010), and expert groups (Horn 2008). Through the often transnational networks constituted by these actors specific interests are brought to the fore, come to underpin the EU’s policy discourse, and shape the content of the regulatory framework it seeks to put in place. From this perspective, the role of and relations between Europe’s institutions are reconceptualised by viewing these institutions as part of a “multilevel state formation” (Jessop 2006), embedded in a particular configuration of transnational social forces, and a concomitant, potentially hegemonic construction and articulation of interests.

2.4 From Institutional Form to Socio-Economic Content

Interest in the political economy of European integration was rising in the final quarter of the 20th century, but only indirectly linked to (political science) debates on European integration theory. Here, authors adopting a historical institutionalist (rather than a critical political economy) perspective, have analysed what they identified as different varieties of capitalism within Europe – in particular that of a “liberal market economy” (such as represented by the UK) versus a more “coordinated” model (as exemplified by Germany). The primary analytical emphasis in this literature has been on the institutional configuration of these varieties (Story/Walter 1997; Hall/Soskice 2001); the debate has to a large extent focused on the question to what extent the European integration process represents some kind of European model and if

so whether this is (or should be) more liberal or more coordinated and interventionist (for a critical discussion see Bruff 2011; cf. Bruff et al. 2015). Whereas Europe's politicians still like to talk about a "European Social Model" arguably more in tune with coordinated capitalism – based on some kind of partnership between capital and labour, and a more regulated market – many political economists would agree with Colin Hay's observation that in the context of, and partly due to the European integration process most national varieties of European capitalism have followed a "common trajectory" oriented on the market-liberal type of capitalism (Hay 2004). While relevant to understanding the political economy of European integration and crisis (Nölke 2016), these discussions have only been tangential to debates on theories of European integration as such.

Understanding the European integration process as a political, and ultimately, class project points to the underlying social purpose of European integration and the particular order that has been created through this process. Social purpose here denotes more than an aggregation of individual or national preferences, beyond rationalist and individualist ontologies. Rather, it refers to the general principles, the "generative grammar" underpinning the macro-structures of European order (compare Ruggie 1982). From a CPE perspective, social purpose is above all bound up with the particular class nature of the European project. It has to do with the question of *cui bono*, and the power asymmetries both reflected and produced by European governance – especially European socio-economic governance, which remains primary to other policy areas, such as justice, and foreign and security policy. Indeed, within the mosaic of European integration theory, CPE most explicitly focuses and seeks to explain the socio-economic content rather than primarily the institutional form of European integration,

While LI claims to be interested in substantive outcomes as well, its dependent variable remains "institutional choice", rather than the social purpose that the institutions created serve, for instance economic liberalization (see Moravcsik/Schimmelfennig forthcoming). Newer perspectives to European integration often have been more open to questions of who, gets, when and how, such as governance approaches (see Börzel forthcoming), but they retain the understanding of a pluralist society and a focus on competing interest groups, with little attention to deeper social structures and attendant power asymmetries.

The central question of critical political economy as a perspective on European integration can be formulated as follows: what is the social purpose of European integration, and why and how did this come about? Identifying the social purpose of European order (as constituted through the integration process and European governance) logically precedes understanding how and why that order came into being, and under what conditions the current order may be changed. As argued above, this emancipatory commitment is a core element of CPE perspectives, and sets them apart from most other approaches of European integration in that they are actively and explicitly concerned with social struggles to remove structural constraints to social, economic and political freedoms.

Key messages from this section:

- Critical political economy (CPE) analyzes the mutual constitution of "the economic" and "the political" in the process of European integration.

- Putting the *cui bono* question at the centre of its analyses, CPE argues that European integration and governance produce unequal effects for different social groups and classes.
- Capitalism and class are key concepts within CPE, with the process of European integration seen as being inextricably connected to the dynamics of global capitalism.
- European integration and the regime of EU governance can be seen as a hegemonic project constructed by the agency of dominant national and transnational social forces vis-à-vis subordinate social groups.

3. European Integration as a Neoliberal Hegemonic Project: From Single Market to Monetary Union

This section outlines how CPE has been applied to understanding the evolution of the integration process from its “relaunch” in the 1980s with the project to complete the Internal Market, and the subsequent construction of Economic and Monetary Union (EMU) until the global economic crisis of 2008.

3.1 The Re-Launch of the Single Market Project

The rejuvenation of the European integration process in the 1980s, leading to the Single European Act of 1986 that contained the commitment to complete the internal market by 1992, has been the object of intense theoretical debates. The period of stagnation that preceded the re-launch had discredited earlier neo-functional accounts. LI explained the process as an outcome of institutional choice by rational national leaders of powerful member states (Moravcsik 1998; see Moravcsik/Schimmelfennig forthcoming), and “supranationalism” (or a revived and modified neo-functionalism) stressed the policy entrepreneurship of the Commission and the pressure of transnational interest groups (Sandholtz/Zysman 1989). CPE has a different starting point, namely to analyse the changing European political economy in the context of global capitalism. European integration had started after WWII under the auspices of American hegemony, and can, in a (neo-)Gramscian sense also be seen as an outward projection of the power of the American capitalist class, forging links across the Atlantic with its counterparts in Europe. Here, within this emerging transnational capitalist elite or “Atlantic ruling class”, American capital was dominant and European capitalists were the junior partner (Cox 1987; van der Pijl 1984).

From the 1960s, however, in part thanks to the success of the European Economic Community, Western Europe rose economically relative to the US. A concomitant phenomenon was the rise of European multinational corporations (TNCs) who, together with Japanese multinationals, joined the global economy hitherto mainly dominated by American transnational capital. The European TNCs became increasingly competitive vis-à-vis American TNCs. At the same time European TNCs found themselves at a disadvantage vis-à-vis their US competitors with their huge home market whereas Europe, which had not yet moved beyond a customs union, still faced fragmentation and non-tariff trade barriers. It is in this context that

an emergent European transnational business elite, representing Europe's largest TNCs, mobilized to push for its own home market in order to create a "level playing field" with American and Japanese competitors. As van Apeldoorn (2002) has shown, a key role in this process was played by the European Roundtable of Industrialists (ERT), composed by CEOs of Europe's largest non-financial corporations. The ERT can be seen as both a medium and an outcome of a process European transnational class formation, and as a platform through which this emergent European transnational capitalist class helped to reshape European integration.

3.2 The Making of a Neoliberal European Union

Across the CPE literature, there is widespread agreement that from the second half of the 1980s the content of European integration process has become increasingly neoliberal, and that this can be explained in terms of changes in European and global capitalism in which the leading parts of the capitalist class came to favour the promotion of "the market" as the main organizing principle of society. CPE views the period from 1986 onwards as representing the neoliberal phase of European integration, following a more "embedded liberal" (Ruggie 1982) or "corporate liberal" (van der Pijl 1984) phase in which capitalist market forces were more restrained and governments pursued more interventionist, Keynesian policies. As such the history of European integration, as European capitalist political economy, is very much in line with a more general history of the global capitalist economy.

Capitalist diversity notwithstanding, there has been a significant transformation and restructuring of social relations across the global economy since the 1980s, with far-reaching consequences for the relationship between labour and capital, as well as the configuration of state-market relations. Neoliberalism has become a blanket term to cover a wide range of these processes; while there is much discussion about its theoretical clarity and analytical strength, few political economists would disagree with the fundamental changes neoliberal policies have brought about. Neoliberalism has been understood by social constructivist approaches in ideational terms, as a set of ideas that, through particular discursive practices, has come to inform policy-making at various levels of European governance (e.g. McNamara 1998; Rosamond 2002). In contrast, CPE perspectives argue that neoliberalism is a set of material and ideational practices whereby the material and the ideational are linked through the agency of concrete actors who articulate and promote particular ideas and projects.

Neoliberalism constitutes a political project (Harvey 2005), bound up above all with the outlook and interests of transnationally mobile capital. Transnationally oriented capital tends to favour free trade, the global freedom of enterprise and of investment, and hence maximum freedom of capital through geographical widening (expanding markets across the globe) as well as social deepening of the market (extending the market mechanism to sectors hitherto shielded from market discipline). Neoliberalism has been a project of economic liberalization and marketization, accelerating and deepening the capitalist process of commodification, or the tendency to turn everything, from money and land to human labour to education and health into a commodity. Concomitant to "neoliberalization" (Brenner et al. 2010), the increasing dominance of financial capital vis-à-vis the "real economy" across many industrialized economies, has led to the financialization of production and everyday life (van der Zwan 2014). Neoliberalism also has been

fuelling inequality, with labour seeing its share of national income decline since the end of the 1970s to the benefit of capital, and wages stagnating or even falling in most advanced capitalist countries (Peters 2011). It is against this background, then, that CPE analyses and historicizes the European integration process and the nature of contemporary EU governance. Importantly, the neoliberal character of the integration process is not an a priori assumption, but rather follows from a sustained critical and historical analysis. In the context of neoliberalism as a global phenomenon, understanding the European Union – its history and its current governance – as part and parcel of the rise of this process, requires us to identify European social forces and, concomitantly, concrete actors who have played a critical role in constructing and reproducing neoliberal hegemony in the European political economy, and in promoting a neoliberal integration project.

Van Apeldoorn (2000, 2002) has argued how the rise of a neoliberal European hegemonic project in the course of the 1990s can be interpreted as the outcome of a struggle between three rival projects, identified as neoliberalism, neo-mercantilism, and pan-European social democracy, which can each be seen as bound up with different transnational social forces and concomitant actors. Here the neoliberal and neo-mercantilist projects were promoted by different sections of Europe's emergent transnational capitalist class or corporate elite. The neoliberal project was propagated by truly globalized capital seeking to turn not just Europe into a big free market but also in a market fully open to and integrated into the global capitalist market. The neo-mercantilist project on the other hand was more in line with the outlook of those multinationals oriented more towards the European (home) market: while to large extent favouring neoliberalism within Europe this part of Europe's corporate elite also sought a degree of protection against global competition, especially, at the time, from the US and from Japan. Within the original ERT, both the neoliberal and the neo-mercantilist wings of Europe's capitalist elite were represented but while originally the latter predominated the former became increasingly dominant in the 1990s as European big business further globalized. The social-democratic project, finally, was espoused by some social democratic politicians and trade union leaders who sought to complement the internal market with a social dimension including EU-level regulation protecting worker's rights (balancing for and correcting the enhanced freedom of capital).

In the end, the neoliberal project prevailed but not without incorporating elements from the latter two projects, thus neutralizing their opposition, in other words, achieving hegemony. The neo-mercantilist concerns with the competitiveness of European industry remained paramount but was rendered compatible with a commitment of global free trade. The transnational social-democratic project was effectively sidelined, as for instance pan-European trade unions backing it up in principle were rather weak at the European level and not up to the increasing ideological dominance of neoliberalism (Ziltener 2000). Nevertheless, although the kind of "social Europe" as envisaged by for instance then Commission president Jacques Delors, was never realized, European official and politicians continued to maintain a rhetorical commitment to what was (and still is) called "the European social model".

This neoliberalization of Europe operated simultaneously at different levels. While we have focused here on the struggle between transnational social forces at the level of European supranational governance, those same transnational forces also transformed domestic politics and, in the process seeking to overcome the resistance of more nationally rooted social forces, such as organized labour. Magnus Ryner (2003) for instance has shown how in this way social-democratic Sweden became increasingly neoliberal, including Swedish social-democrats themselves. Both national and transnational social forces then account for

the making of a regime of European socio-economic governance which in the 1990s and 2000s became premised above all on the primacy of the four freedoms (of goods, services, capital and people), reflecting the primacy of free competition (Buch-Hansen/Wigger 2011). Thus the social purpose of European integration was transformed, with huge implications for national political economies. Indeed, CPE would emphasize that after 1992, European integration entered a qualitatively new phase in which for the first time the integration process came to intervene – both willingly and unwillingly – directly into the existing socio-economic order of the member states, challenging many features of the “post-war European model of capitalism”.

Crucially, this particular trajectory of European integration has led to a fundamental asymmetry between policies promoting market efficiencies and those promoting social protection and equality (Scharpf 1999). Whereas European integration has created a supranational internal market (and later a currency union as well), thus transferring market-making policies to the European level, social, employment and other market-correcting policies have remained at the national level. This “asymmetrical regulation” of European governance (Holman 2004) further undermines Member States’ capacity for regulating the market and steering the economy through the economic mechanism of regulatory competition. With a supranational internal market, on the one hand, and national welfare states formally remaining sovereign in the social realm, on the other, states are bound to compete on these policies in order to attract or retain mobile factors of production, that is, capital. The discursive underpinning of this restructuring of European governance was based on competitiveness as primary objective. The clearest articulation of this came with the Lisbon Strategy’s commitment in 2000 to turn the EU into “the most competitive and dynamic knowledge-based economy in the world” (European Council 2000). As CPE would argue, the competitiveness discourse serves to legitimate and deepen neoliberal governance, for instance by discursively combining “competitiveness and social cohesion” (European Council 2000), but in practice subordinating the latter to the former, and making social cohesion ultimately a matter of individual responsibility. An illustration of this would be labour market policies putting the onus on the unemployed that they should be fully participating in society again by working on their own “employability”; in abstract terms, labour should make itself more attractive to capital (van Apeldoorn/Hager 2010).

3.3 Reinforcing Neoliberal Discipline: Economic and Monetary Union

Economic and Monetary Union (EMU) has, through its particular institutional design, reinforced the neoliberal discipline of socio-economic governance that emerged in the 1990s and 2000s. The introduction of the single currency has become, as was intended, a cornerstone of the process of financial liberalisation in which financial capital gained more freedom than ever; being able to go after any investment opportunity, ever searching for the highest rate of return, while often ignoring or down-playing growing risks.

European integration theories offer rival explanatory narratives for the creation of the single currency in its concrete form (Enderlein/Verdun 2010). In conjunction with an institutional analysis, i.e. the form of monetary union, CPE perspectives here also stress the need to look at the content of EMU (Ryner 2015). While there is nothing neoliberal about a single currency as such, the way EMU was designed has, and deliberately so, reinforced neoliberal discipline. Under EMU and its strong push for macro-economic

convergence, Member States delegated monetary policy to the European Central Bank, and at the same time committed to fiscal discipline, rendering the labour market the primary area for possible adjustments through (assumed) labour mobility, and downward pressure on wages. Under the EMU framework, the prime directive of competitiveness hence hinges on putting pressures on labour, corroborating CPE arguments about neoliberal socio-economic content. Heterodox economists have argued, both at the time and naturally even more so since the crisis, that the EMU architecture has been flawed from its inception (e.g. De Grauwe 2013; Jespersen 2016; Stiglitz 2016). A CPE angle here complements this analysis by, for instance, focusing on why specific social forces have supported EMU. Here once again the role of transnational capital has been key in promoting the idea and particular form of a single currency (van Apeldoorn 2000). A concomitant explanation is ideology, tied to European integration as a capitalist class project and manifest in the strong faith in markets permeating the policy visions of political and business elites in the EU (Gill 1998). Importantly, CPE highlights how the social origins and contents of EMU also are key in understanding how and why monetary union almost unravelled with the Euro crisis and how Europe's institutions subsequently responded to the crisis.

Key messages from this section:

- CPE research has shown how the European integration process has become increasingly neoliberal in the past decades as the leading sections of the capitalist class, in particular as bound up with transnationally oriented capital, came to favour market-competition and market-liberalization over any form of social or economic protection.
- The rise of a neoliberal European hegemonic project can be interpreted as the outcome of rival political projects constructed by different transitional dominant social and political forces in which the neoliberal project ultimately achieved hegemony.
- EMU has, through its institutional design reflecting powerful class interests, strongly reinforced the neoliberal discipline of EU socio-economic governance.

4. The Euro Crisis in the Context of the 2008 Global Financial and Economic Crisis

The Euro crisis became manifest in 2010, with Greece unable to refinance its large national debt and having to be 'bailed out' under strict conditionality imposed by the "troika", the consortium of lenders comprised by European Commission, the ECB and the International Monetary Fund. The crisis spread to Portugal, Ireland, Spain, Cyprus, Spain and Italy, with each country exposed to a loss of trust by financial markets, resulting in the interest rates on their bonds (i.e. government debt securities) pushed to unsustainable levels. Despite huge further bail-out packages, fears of an actual break-up of the Euro – starting with Greece being forced out of the single currency – and hence of a major reversal of the integration process were mounting in 2011 and 2012. Subsequently, the policy of the ECB to pour hundreds of billions of euros into the economy by buying up government bonds throughout the Eurozone has brought relative calm to Europe's financial markets. The reform of EMU architecture in the context of the Eurozone crisis from 2012

onwards has sought to further tighten the framework for fiscal governance underpinning membership of the Euro. However the structural problems underlying the crisis have been far from resolved, and actual disintegration, and the end of EMU remains a real possibility. In fact, both proponents and critics of the single currency agree that the single currency in its current form remains unsustainable (for example compare Stiglitz 2016 with Juncker et al. 2015, the so-called “Five Presidents Report”).

Since the crisis manifested itself as a crisis of governments that were no longer able to service their debts, it has also been called Europe’s “sovereign debt” crisis. This is misleading to the extent that it suggests the high indebtedness of some Eurozone member as cause of the crisis. Yet it has been the dominant narrative at least in the Northern part of the Eurozone (especially Germany), where both the political elite and the media have promoted the argument that it has been the fiscal profligacy of the so-called peripheral Eurozone countries, that is, their inability to maintain fiscal discipline and thus running constant budget deficits and piling up national debt, which has caused the crisis. As Keynesian and post-Keynesian economists have repeatedly pointed out, the data just do not support this claim. The crisis unfolded in specific ways in each economy, but sovereign debt constituted an outcome or a corollary, not a cause. Only Greece was running an unsustainable budget deficit, countries like Spain and Ireland were actually performing better in terms of deficit and national debt than Germany (OECD 2010). They then saw their national debt rapidly rising as, in the context of the global and financial crisis of 2008, many EU members states decided to borrow money to bail out their own banks, in effect socialising the losses of the financial sector.

A much more accurate predictor of the crisis, or which countries would get into trouble, was in fact not budget deficits but trade deficits. This points towards a key CPE contribution to understanding the Euro crisis, namely the role of capitalist diversity and structural asymmetries engendered by EU governance. Since the establishment of EMU, and to a large part because of it, Southern Europe had been running growing trade deficits, mirrored by an ever larger surplus on the part of countries like Germany and the Netherlands. CPE perspectives here stress the geographically uneven development of European capitalism, pointing to deeper structural causes of the Eurocrisis. Indeed, as Stiglitz (2016) and other economists have also argued, the Euro, while expected to lead to convergence, has produced the opposite, increasing divergence between a Northern part with a competitive export sector and a weaker Southern part importing ever more stuff from the North. The introduction of the single currency helped to bring this divergence about, as capital could now pour much more easily (and apparently risk-free) into the South from the North, creating a bubble in economies like Spain and generally pushing up wages and making these countries less competitive in trade. This was even more so the case since Germany and other export-focused members of the Eurozone followed a policy of wage depression. In this sense, one explanation offered by CPE is that the Euro crisis has been caused by Germany’s strategy of boosting its export, dubbed Germany’s neo-mercantilism, in effect pursuing what economists call a beggar-thy-neighbour policy (Stockhammer 2016; Lapavistas 2012). While this already effectively busts the myth about “fiscal profligacy” that underpins the policies in response to the crisis, and is also complementary to institutionalist explanation of these asymmetries focused on price competitiveness and the role of inflation differentials (Johnston/Regan 2016), other CPE perspectives have argued that we need to look for yet deeper causes of the crisis.

The root causes of the Euro crisis lie in the limits of the neoliberal European project as it has unfolded against the background of the contradictions of global neoliberal capitalism in the 1990s and 2000s. CPE

understands the Euro crisis as a particular manifestation of the crisis of global capitalism, as it was refracted and in many ways magnified through the institutional set-up of EMU, and subsequent policy responses. EMU was from its conception afflicted by particular contradictions. It was supposed to boost economic growth, but the growth upon which it was based was not only finance-driven and therefore fragile, but also uneven and accompanied by deepening inequalities. EMU was supposed to bring economic convergence between Member States but produced deepening divergence instead. It was also explicitly premised on neoliberal discipline by turning labour and the labour market into the principle mechanism of adjustment to economic shocks. Moreover, EMU deliberately restricted, and in its current form even outlaws, Keynesian responses of stimulating aggregate demand in the economy through expansionary fiscal policy. Austerity, in this context, often seen as externally imposed on Member States, is actually part of the very design of EMU.

CPE perspectives view the Euro crisis as a crisis of the neoliberal hegemonic project that has been informing European integration in the past decades. With the Euro as key element in the single market project, the promotion and institutionalisation of the same kind of unsustainable financialization that has characterized global capitalism has brought about highly uneven economic and social effects also within countries and regions, and has resulted in far reaching social and political dislocations.

Given the extent and the depth of the Euro crisis and these obvious inherent contradictions, it is striking how little attention has been paid in European integration theories to any of these problematic aspects of EMU before the crisis became manifest. As Ryner has shown (2012: 649), only a handful of contributions published in the top journal of EU studies, the *Journal of Common Market Studies*, in the two decades running up to the crisis had “anything relevant to say about the factors that had generated the crisis.” While no critical political economist can claim to have accurately predicted the crisis, either its timing or exact form, CPE perspectives have consistently pointed to the neoliberal nature of monetary union, as well as the economic and social problems, and concomitant legitimacy crisis it was causing, thereby raising doubts about the long-term sustainability of EMU (e.g. van Apeldoorn 2002: 185-187; Cafruny/Ryner 2007). It is through analysing the causes of the Euro crisis, and hence the potential disintegration of Europe, that CPE arguably has more of a contribution to make than other approaches. Nowhere is this clearer as in recent CPE perspectives highlighting the effects of new economic governance, and in particular the ‘Troika’ mandated austerity measures in the context of the Euro crisis.

Key messages from this section:

- The root causes of the Euro crisis lie in the limits and contradictions of the neoliberal European project as it has unfolded against the background of global neoliberal and finance-driven capitalism in the 1990s and 2000s. As such it can be regarded as a particular manifestation of the crisis of global capitalism, refracted and in many ways magnified through the rules and policies of EMU.
- In contrast to most European integration literature, which has hardly given any attention to the inherently problematic aspects of EMU before the crisis, CPE perspectives have consistently pointed to the neoliberal nature of monetary union, and the economic, social and political problems it has caused.

5. Whose Europe, Whose Crisis? Austerity and Contestation of Neoliberal European Governance

CPE scholars have argued that the neoliberal project has taken an increasingly authoritarian turn. This “authoritarian neoliberalism” (Bruff 2014) highlights the thin veneer of neoliberal hegemony in the way it reinforces the explicit exclusion and marginalisation of social groups. With regard to European integration, of particular concern for current CPE discussions is the reconfiguration of the European state apparatus into a less democratic entity through constitutional and legal changes that seek to insulate it from social and political conflict (Bruff 2014; cf Gill 1998; Sandbeck/Schneider 2014; Oberndorfer 2015). This focus on the continuities and changes of the EU institutional state apparatus and its actors constitutes an area where CPE perspectives intersect empirically with e.g. governance approaches (see Börzel forthcoming); it is also an area where there is room for further CPE research.

A prominent example would be a series of ECJ rulings in 2007/08, which highlighted the tension within the politico-legal framework of the European Union between the “capitalist” freedoms of movement and establishment, and the fundamental social and political rights that could potentially limit those freedoms. “Integration through law”, as Höpner and Schäfer (2012) have argued, has advanced market-enforcing integration over social protection. This process does not take place without frictions, exposing the faultlines of European integration through the political struggles between various actors engaged in respective political projects, at the level of the EU institutions as well as in the broader social terrain. The position of the European Trade Union Confederation serves as a useful illustration here, in that it went from a broad “yes, but” angle on neoliberal European integration (Dølvik 1999) to a much more critical and even antagonistic position (Horn 2012).

In its discussion of the financial and economic crisis, CPE once more highlights the class-character of crisis management, explaining how Europe’s policy elites have responded to, and sought to contain and manage the crisis (van Apeldoorn 2014; Heinrich 2015). More importantly still, CPE perspectives also emphasise the severe impact of austerity on socio-economic structures and institutions, and the very livelihood of people (e.g. Pradella 2015; Bruff/Wöhl 2016). Once again it is through pointing to the social purpose of integration that the contradictions of this process become clear – the relentless push for competitiveness risks undermining the very fabric of society on which it is based. In this context, we see a concomitant socio-economic dynamic to the uneven macro-economic development engendered by EMU. Despite the “European Social Model” discourse, an increasing deterioration of social equality and cohesion within Member States puts the *cui bono?* question into sharp relief. This also raises fundamental issues for understanding the contestation of, and resistance against this particular form and purpose of European integration.

In the electoral arena, whereas European elections have long been a second-order issue for voters, the salience of EU aspects has increased significantly also in domestic contexts. Here, it is particularly issues of migration/free movement and social integration that feature highly in the increasingly contested process of integration. This is not only manifest in the right-wing, euro-sceptic populism that has become prominent across European Member States in the last two decades. CPE perspectives, it should be noted here, still have much room for theoretical and empirical work on understanding right-wing populism. We also see an increasing part of political actors and scholars on the left who are arguing for (a return to) the

primacy of nation state solutions to the dynamics brought about partly by European integration. There have been many expressions of contestation of neoliberal European integration, including, for instance, the Euromarches in the 1990s and the European Social Forum in the 2000s (Bieler/Morton 2004). The political and social struggles over e.g. TTIP/CETA or the austerity governance mandated by the “troika” have shown that there is now an increasing number of actors on the political left that fundamentally oppose not just the form of integration, but more importantly still, contest its social purpose. CPE perspectives have analysed the structures and contradictions in the formation of left-wing resistance against EU, focusing on the class- and subject-oriented understanding of social struggles and concomitant power configurations, and the uneven development and timing of these contestations (Wigger/Horn 2014).

At the same time, as most critical political economy perspectives emphasise the changing nature of hegemony, or domination in European integration, more recent contributions contest this focus on “power from above”, and instead focus on the politicisation of everyday life in Europe, new forms of solidarities and alternative organisation of socio-economic structures (Huke et al. 2015; Bailey et al. 2017). While even social movement studies have realised that capitalism needs to be an integral part of the analysis (della Porta 2015), CPE is attempting to understand and capture the social reality of the increasing contestation, disruption and autonomous organization within Europe in the context of the economic crisis. As the project of European integration is becoming more and more fragile and fractured, this focus on agents, structures, and contradictions in the formation of resistance against EU austerity politics, and the content and trajectory of European integration more broadly, has become one of the key contributions CPE can bring to understanding the dynamics of European (dis)integration.

Key messages from this section:

- The class character of the European project has become more pronounced in the reconfiguration of EU governance and institutions under authoritarian neoliberalism;
- CPE perspectives highlight the impact of austerity on marginalised social groups;
- There are many forms of contestation of, and resistance against austerity measures and EU economic governance.

6. Conclusion: Critical Political Economy and the Open-Ended Nature of European Integration

European integration is a fundamentally open-ended and contested process. Critical theories of European integration here have a crucial contribution to make in challenging an understanding of European integration that is still based on quasi-teleological assumptions about the nature and trajectory of integration processes (see also Manners/Whitman 2016). In their contribution to the “mosaic of European integration theories”, critical political economy perspectives highlight the imbalances and structural power asymmetries of the European project. There is an important analytical, and also political, corollary of this - European

integration cannot be “fixed” through institutional reform alone. Rather than focusing exclusively on the form, level and mode of integration, it is its content and social purpose that needs to be centre of analysis. CPE perspectives are composed of a wide range of theoretical and methodological angles, with a healthy degree of internal discussion and critique (see e.g. Shields et al. 2011). Maybe not surprisingly, the developments in the Euro crisis and broader dynamics of capitalism have brought about a renewed interest in these critical perspectives, not just in academia, but also within policy circles. Political parties such as Syriza in Greece and Podemos in Spain have explicitly referred to arguments brought forward in critical EU integration discussions, highlighting the hegemony of neoliberal governance and rejecting the disciplining nature of austerity governance.

While CPE perspectives do not per se agree completely on whether the crisis will lead to the disintegration of the European Union, they can tell us much about who actually benefits and who loses in the process. Crucially, they do so against a wider understanding of global capitalism, where developments in Europe are intricately linked to structural changes in the world economy. In emphasising the social power relations at the heart of economic and political dimensions of social change, CPE offers pathways for understanding the European Union, and Europe more broadly, as a complex and contested social terrain where structural asymmetries are at play, but where, simultaneously, another Europe is indeed possible.

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